



# Franchisee Research

Exploration of Motivations For Purchase of A Franchise

A Report for:



Gowling Lafleur Henderson LLP / S.E.N.C.R.L.

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# Research Objectives

- To investigate the attitudes and behaviour of franchisees in Canada in order to understand:
  - Motivations for purchase of a franchise generally
  - Motivations for purchase of the specific franchise
  - Sources of information about franchises
  - Challenges faced
  - Overall satisfaction with the decision

# Method

- Telephone survey conducted nationally in September/October 2008
- 400 franchisees were interviewed
  - Respondent was the owner or senior manager who was primary decision-maker regarding the franchise acquisition
  - Roughly half the sample was comprised of those who had owned their franchise for more than five years, while the balance had owned their franchise for five years or less
- Sample was derived from a list of franchisees of those franchises who are members of the Canadian Franchise Association (“CFA”)



# Executive Summary

# Executive Summary

## ***Franchising is a lower-risk path to success***

- Franchisors must consider their competition to be not just other franchisors, but also the lure of becoming an independent business person.
- Overall, almost half of all franchisees had considered starting their own business prior to buying a franchise. Males were more likely than females to have considered an independent business.
- The reasons for choosing a franchise over an independent business were name recognition of the franchise, and the training and support offered by the franchisor. Some specifically mentioned lower risk and the ease of running a franchise. Overall, they felt it would be easier to buy a franchise.
- Franchisees who had not considered an independent business specifically mentioned the risk involved as a deterrent.

## ***The easier that the franchisor makes it for the franchisee, the more attractive the opportunity***

- On an aided basis, the fact that the franchise has a well-known brand name and the franchisor offers support were key influencers in the choice of franchise. A convenient location and profit potential were also important considerations. Cost and relevant experiences were less important.

# Executive Summary

## ***Franchisors and current franchisees are both influential sources of information for potential franchisees***

- Company reps and current franchisees were the most frequently mentioned sources of information.
- Franchisees who had considered starting their own business were much more likely to have investigated company and franchisee sources of information, advertising and third party websites. This suggests they engaged in a more in-depth investigation of their options

## ***Financing a key consideration for all franchises***

- Obtaining financing was the predominant challenge when purchasing a franchise.
- While investment levels varied widely, B2C service tended to have the lowest start-up investment, with foodservice at the higher end.
- Males were much more likely to have made a \$500,000+ purchase

## ***Generally they feel they made the right decision***

- The majority of franchisees are very satisfied with their decision.
- Most expect to own their franchise for at least five years.
- When they cease to own their current franchise, most expect to retire. Among those who had considered starting their own business, a significant minority expected to become self-employed.



# Detailed Findings

# Considerations When Buying A Franchise

## The Franchise Was Not The Only Option For Many

- At the time they were considering buying a franchise business, almost half of franchisees (45%) also considered starting their own independent business. This suggests that the competition for a franchisor is not simply other franchisors, but also the potential purchaser's desire to own an independent business.



- Males (50%) were more likely than females (36%) to also consider starting their own business. The fact that no other demographic differences emerge suggests that it is an attitude or mindset, rather than demographics, that will drive the decision to choose a franchise over an independent business.

- Many of those who considered starting their own independent business ultimately opted for a franchise because they felt it might be a less demanding road to success. Some suggested that starting with a known brand would be easier than building brand awareness of a new independent business. Some liked the idea that the franchisor offered support and training. Some felt a franchise would be easier to operate, possibly because the format was already in place.

Why Did You Choose A Franchise Instead of Starting Your Own Independent Business?	% who considered starting their own business (N=178)
Name recognition/known business name	22
Franchise support and training	18
Ease of running the franchise	11
The opportunity was available	10
Higher chance of success/less risk	10
The concept appealed to me	9

- A few of those who considered starting an independent business chose the franchise operation because the opportunity was available; it seemed to be a case of being in the right place at the right time.

## Considerations When Buying A Franchise (cont'd)

- Those who did not consider starting their own independent business seemed to view that as a riskier proposition.

- Some mentioned start-up costs of an independent business as an inhibiting factor, while others mentioned their own lack of experience in running a business. Like those who considered but rejected the idea of starting an independent business, those who never even considered it liked the idea that a franchisor would offer support and training in helping them get the business up and running. Overall, they seemed to feel there would be less work involved in a franchise than in starting an independent business.

Why Were You Not Interested In Starting Your Own Independent Business?	% who did not consider starting their own business (N=217)
Starting an independent business too risky	12
Preferred to start a franchise	10
No experience in starting a business	9
Cost of running an independent business too high	8
Franchise offered support and training	8
Too much work involved in starting an independent business	8

- In describing their reasons for rejecting the idea of starting an independent business, franchisees tended to imply that relevant experience is less important in running a franchise than it is in operating an independent business.

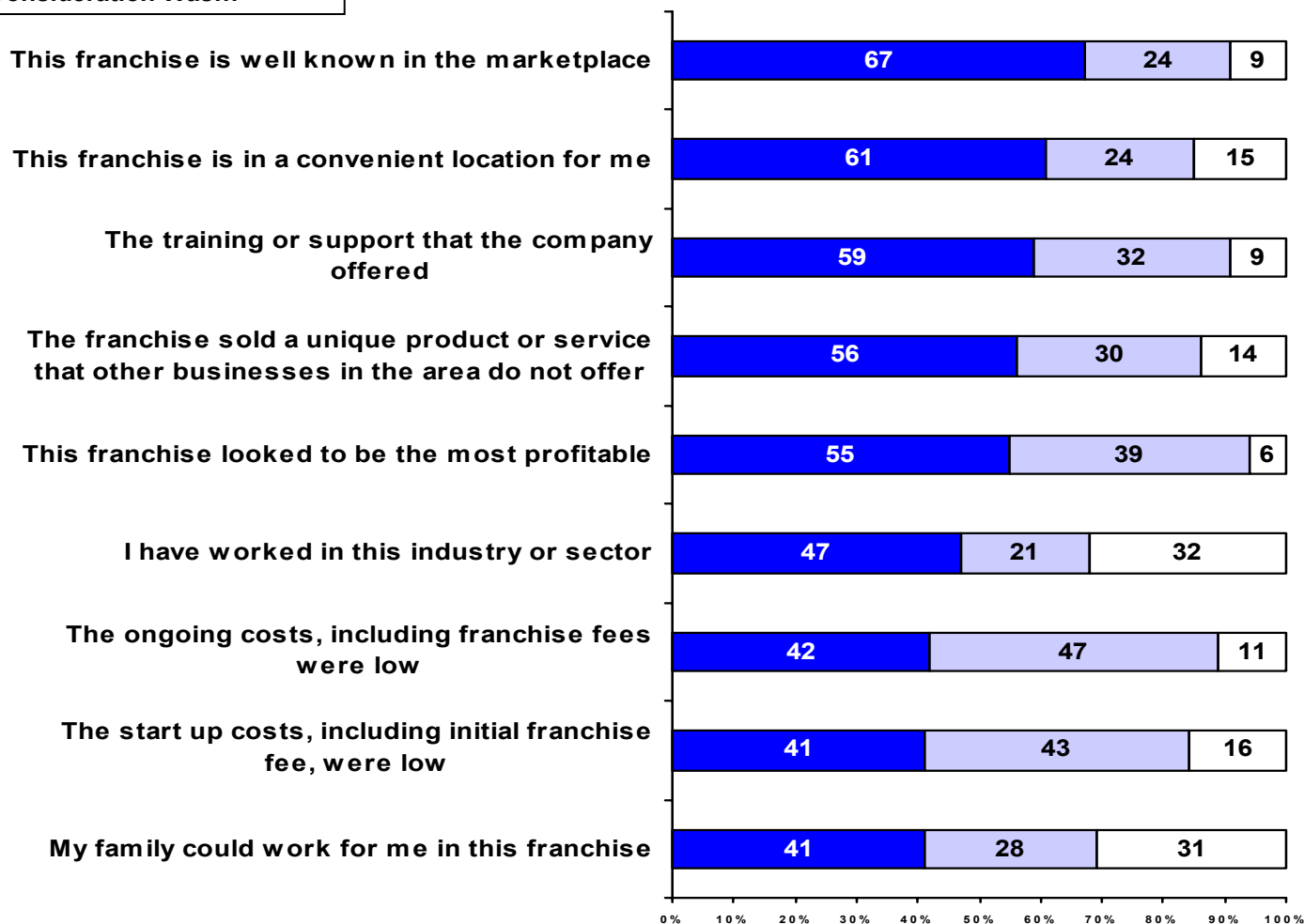
### ***A Number Of Factors Came Into Play When Deciding On A Franchise***

- Franchisees clearly considered a number of factors when deciding on a franchise, although the relative importance of those factors varied; some factors clearly weighed more heavily into the decision than others.
- Not surprisingly, given their unprompted responses noted above, the most important factors that were considered included brand recognition and the training and support offered by the franchisor. Other important factors included:
  - This franchise was well-known in the market
  - This franchise was in a convenient location for me
  - The training or support that the company offered
  - The franchise sold a unique product or service that other businesses in the area do not offer
  - The franchise looked to be the most profitable.
- It is noteworthy that the costs associated with the franchise were among the least important considerations, as was experience in the industry or sector. Again, there is a hint that franchisees felt relevant experience was not a critical issue.

## Considerations When Buying A Franchise (cont'd)

In Your Choice Of This Franchise, How Important A Consideration Was...

■ Very important (% 8 - 10) □ Important (%4 - 7) □ Not important (% 1 - 3)



# The Purchase Process

## There Are Two Key Sources Of Information For Evaluating Franchises

- Franchisees seemed to rely on two key sources of information when evaluating the various franchise opportunities they considered:
  - The company itself, through its reps, written material, website, trade show booths
  - Existing franchisees.
- On an unaided basis, these are the two sources mentioned most often. A third evaluation technique mentioned unaided was visiting franchise locations.
- On an aided basis, these also emerged as the key ways in which potential franchisees evaluated their opportunities. However, some of the other approaches used included:
  - Reading franchising publications/directories
  - Looking at advertising such as newspaper ads
  - Talking to a franchise broker.

Sources of Information For Evaluating Franchises	% of Franchisees (N=400)	
	Unaided	Aided
Company sources (Net)	31	
<i>Met personally with company reps</i>	13	81
<i>Read company material</i>	10	83
<i>Research company website</i>	8	51
<i>Listened to company presentation to a group</i>	4	33
<i>Visited their booth at a trade show</i>	3	19
Talked to franchisees	24	87
Visited franchise location	15	84
Talked to a franchise broker	5	32
Read franchising publications/directories	4	48
Looked at advertising such as newspaper ads	3	35
* Visited the CFA website	2	21
* Visited a third-party website	1	28
In-store advertising	1	28

\* Third-party website may also include the CFA website.

Most Credible Source of Information For Evaluating Franchises	% of Franchisees (N=248)
Talked to franchisees	47
Company sources (Net)	36
<i>Met personally with company reps</i>	20
<i>Read company material</i>	7
<i>Research company website</i>	4
<i>Visited their booth at a trade show</i>	4
<i>Listened to company presentation to a group</i>	2
Visited franchise location	12
Talked to a franchise broker	4

## Franchisees Considered A Credible Source

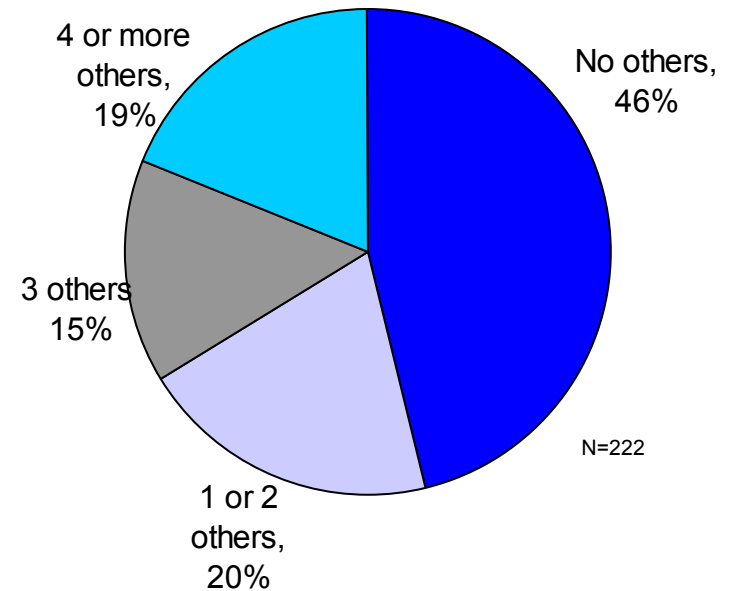
- Almost half considered the existing franchisees to be the most credible source of information about the franchise(s) they were considering.
- However, the franchisor is also a credible source, particularly when the potential franchisee can meet personally with reps from the company. Presumably this not only affords the chance for the company to present the opportunity, but also allows the purchaser to ask questions and engage in discussion.

# The Purchase Process

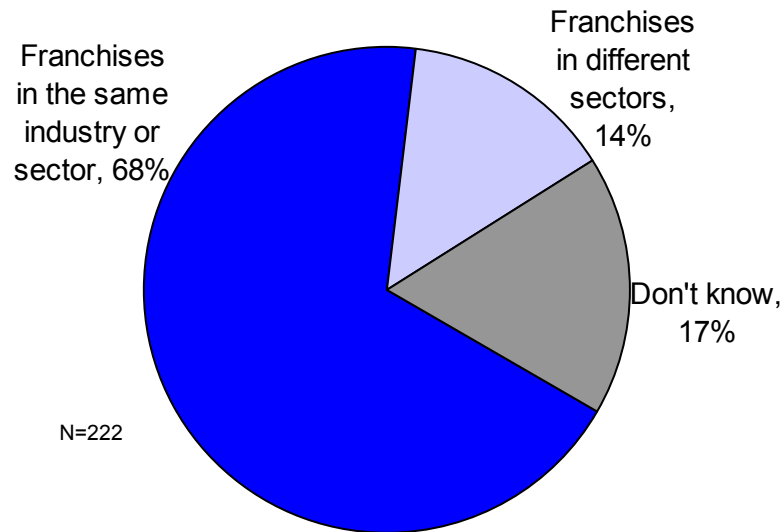
## Franchisees Considered Few Businesses Before Choosing One

- Half of franchisees (46%) who had not considered starting their own independent business looked at only one franchise opportunity. The other half were split, with about a third (34%) looking at 3 or more other opportunities.
- Franchisees whose biggest challenge was obtaining financing were more likely (than those whose biggest challenge was not financing) to have looked at only one franchise and no others (51%).

**Number of Franchises Looked at Before Choosing One**



**Franchises Considered**



## Franchisees Stayed in One Sector

- Franchisees who had not considered starting their own independent business, and who looked at more than one franchise before they purchased, were more likely to look at franchises in the same industry or sector.
  - Among those whose investment was \$250,000 or more, 78% looked at franchises in the same industry or sector.

## The Purchase Process (cont'd)

### ***There Are Indications That Those Who Considered Starting An Independent Business Gave More Careful Consideration To Their Options***

- Franchisees who had also considered opening their own independent business seemed to go through a more exhaustive process of evaluating their options than those who did not consider starting their own business.
- While they clearly spent some time talking to both the company reps and existing franchisees, they went beyond this to other sources:
  - They were more likely than those who had not considered an independent business to do some online research, looking at the company's website, the CFA website and third-party websites.
  - They were more likely to look at advertising, and to read the company's material.
- Overall, the fact that they explored more sources of information is interesting in light of the fact that the factors they took into consideration do not differ from the ones considered by those who did not consider starting an independent business.

Sources of Information For Evaluating Franchises	% of Franchisees	
	Considered Independent Business (N=178)	Did Not Consider Independent Business (N=217)
Talked to franchisees	94	80
Read company material	90	77
Met personally with company reps	87	77
Visited franchise location	87	83
Research company website	60	43
Read franchising publications/directories	53	44
Looked at advertising such as newspaper ads	42	30
*Visited a third-party website	36	21
Listened to company presentation to a group	33	33
Talked to a franchise broker	30	33
*Visited the CFA website	27	15
Visited their booth at a trade show	23	16
In-store advertising	20	22

\* Third-party website may also include the CFA website

○ Circle around a number indicates a statistically valid difference.

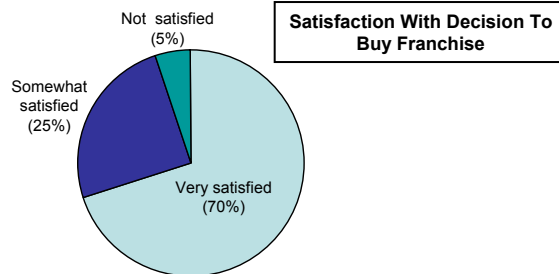
## The Purchase Process (cont'd)

### Financing Was The Key Challenge

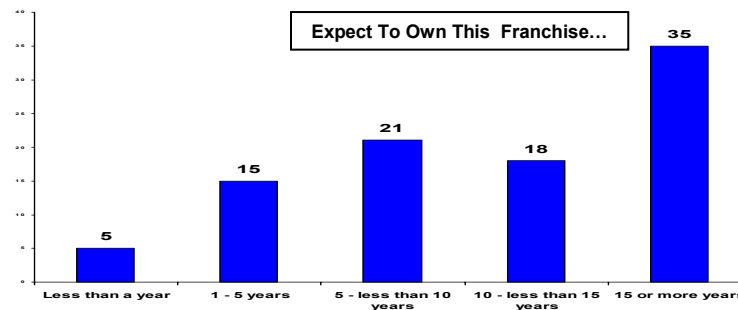
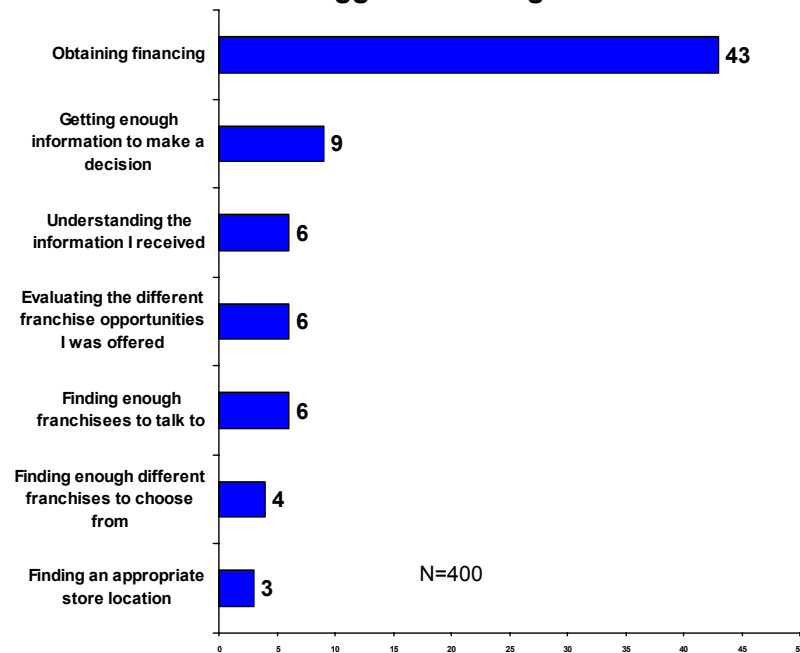
- The largest single proportion of franchisees said that obtaining financing was the major challenge they faced when they were deciding whether or not to buy the franchise.
- Those who had not considered starting an independent business were particularly likely to say their key challenge was obtaining financing (49% vs. 37% among those who did consider starting an independent business).

### Satisfaction Is Widespread

- The majority of franchisees are very satisfied (rated 8, 9 or 10 out of 10) with their decision to purchase the franchise they currently own.
- One indication of their level of satisfaction is the high proportion who expect to own their franchise for the long-term. Most (74%) expect to own their franchise for at least five years, and fully half (53%) say they will own it for ten years or more.



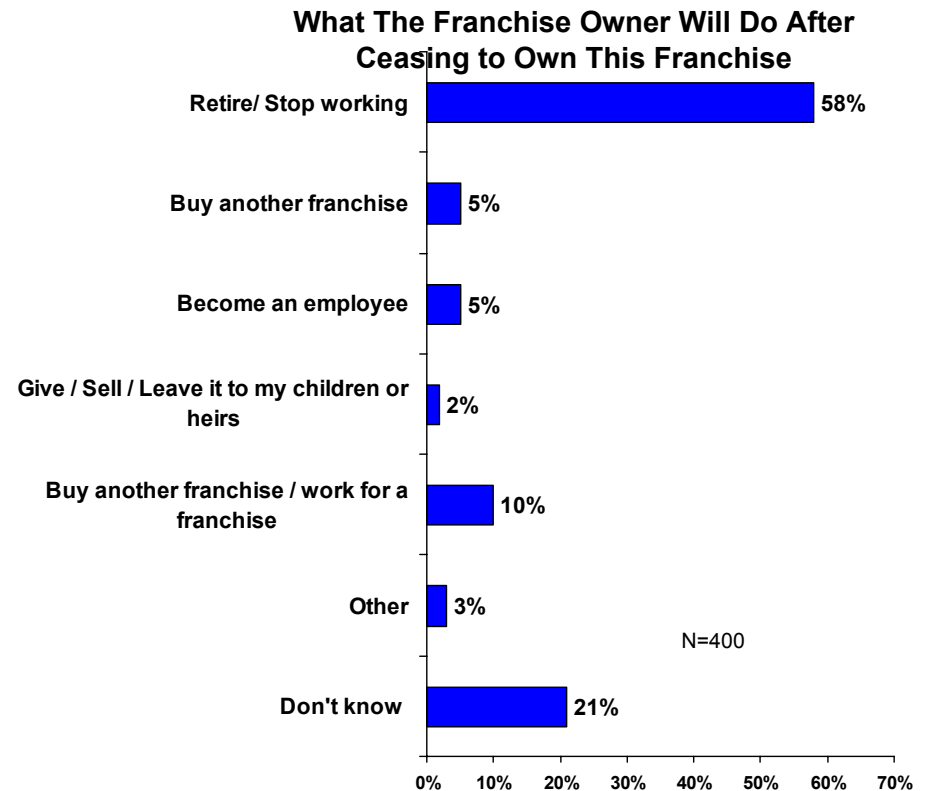
### Biggest Challenge



## Succession – Passing Along the Franchise

### *The Next Step Is Retirement For Many*

- A slight majority of franchisees said that they planned to retire after they cease to own this franchise.
- Very few (2%) planned to pass the franchise to their children or heirs, whether through a sale or inheritance.
  - In the Atlantic this proportion was 6%, directionally higher than other regions and the national total.



# The Franchise

## Food Service Dominates

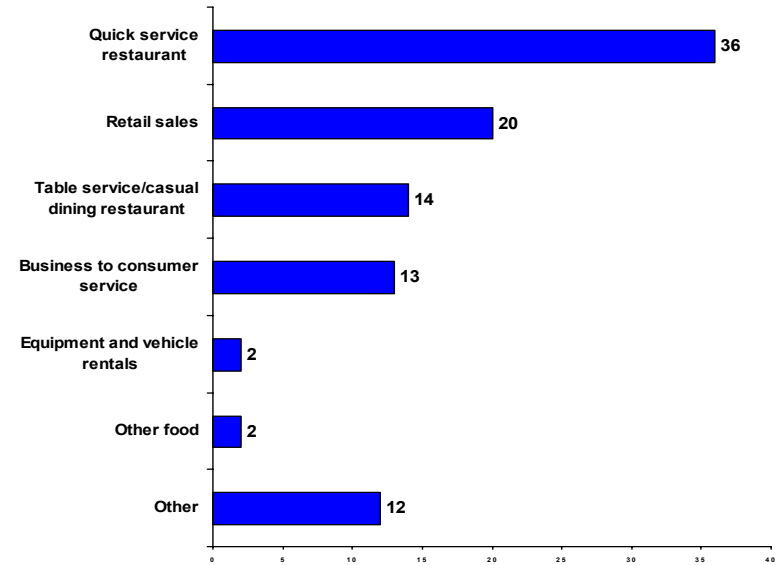
- Food service, particularly quick service restaurants, represents a large proportion of the franchisees' businesses.
- Retail sales tend to have another sizable share of the franchise business.

## Profile Of The Franchise Owned

- Most franchisees own only one location of their franchise, although one in four (28%) own two or more.
- About one in two bought their franchise within the past five years, while the balance bought it more than five years ago.

Profile Of The Franchise	% of Franchisees (N=400)
<b>NUMBER OF LOCATIONS OWNED</b>	
One	72
Two or more	28
<b>BOUGHT THE FRANCHISE...</b>	
Less than a year ago	9
1 to less than 2 years ago	12
2 to less than 4 years ago	16
4 to five years ago	12
More than five years ago	51

## Type Of Franchise Owned



- The investment made in the franchise varied considerably, with the type of business being a key determinant of investment size.

Investment In The Franchise	% of Franchisees			
	TOTAL SAMPLE (N=400)	TYPE OF BUSINESS		
		Food (N=210)	Retail (N=82)	B to C Service (N=53)*
\$100,000 or less	24	6	38	40
\$100,001 - \$249,999	33	32	28	46
\$250,000 - \$499,999	22	32	18	7
\$500,000 or more	13	20	10	-
Refused	8	10	5	7

\* CAUTION: Small base

# The Franchise

## Profile Of Franchisees

- The franchisees interviewed for this study tended to be skewed male; only one-third were female. Those who did not consider starting an independent business were more likely to be female.
- About half (46%) of the franchisees interviewed were aged 45 or older, with most of the balance being between 35 and 44.
- The largest single proportion of franchisees had been working as an employee of a business before they bought their franchise. However, some had franchise experience as about one in five had been working for a franchise owned by someone else and 6% had owned their own franchise.
- When they cease to own their current franchise, most expect to retire. However, it is noteworthy that about one in five expect to continue working, either by starting their own independent business or another franchise, or working for someone else. This suggests that current franchisees represent an opportunity for franchisors.

Profile Of Franchisees	% of Franchisees		
	TOTAL SAMPLE (N=400)	CONSIDERED STARTING AN INDEPENDENT BUSINESS	
		Yes (N=181)	No (N=214)
<b>GENDER</b>			
Male	68	75	62
Female	32	25	38
<b>AGE</b>			
18 – 34	14	14	15
35 – 44	38	39	38
45 – 54	31	31	31
55 – 64	14	15	13
<b>PREVIOUS OCCUPATION</b>			
Working as an employee	42	38	47
Working for another franchise	19	19	19
Self-employed	17	18	16
Had your own other franchise	6	6	6
Not working	5	8	3
In school	4	5	4
<b>FUTURE OCCUPATION (when cease to own this franchise)</b>			
Retire	58	53	63
Become self-employed	10	16	5
Buy another franchise	5	7	4
Become an employee for another business	5	3	6
Other	5	5	4
Don't know yet	21	22	20

\* CAUTION: Small base